

BEFORE THE TENNESSEE REGULATORY AUTHORITY

NASHVILLE, TENNESSEE

AUGUST 4, 2000

IN RE:

**PETITION OF ON-SITE SYSTEMS, INC.
TO CHANGE RATE STRUCTURE,
INCREASE RATES, AND ADD FEES**

DOCKET NO. 99-00393

**ORDER APPROVING CHANGE IN RATE STRUCTURE, RATE INCREASE,
AND ADDITION OF FEES**

This matter came before the Tennessee Regulatory Authority (the "Authority") at the regularly scheduled Authority Conference held on January 11, 2000 upon a Petition to Change Rate Structure, Increase Rates, and Add Fees filed by On-Site Systems, Inc. ("On-Site") on June 3, 1999. A Hearing in this matter was held on November 30, 1999.

Background

On-Site was granted a Certificate of Public Convenience and Necessity ("CCN") by the Tennessee Public Service Commission ("TPSC") on April 4, 1994 to provide sewer service to Oakwood Subdivision in Maury County.¹ On-Site has subsequently expanded its service territory to include Southridge Subdivision in Montgomery County,² Swan Harbour Subdivision in Roane County,³ River Road Utility District in Cheatham County,⁴ Milcrofton Utility District in Williamson County,⁵ Tall Oaks Subdivision in Blount

¹ TPSC Docket No. 93-09040.

² Authority Docket No. 97-01104.

³ Authority Docket No. 97-01003.

⁴ Authority Docket No. 97-01394.

⁵ Authority Docket No. 97-01393.

County,⁶ Yoakum Hollow Development in Campbell County,⁷ and the Shreibman Development in Cannon County.⁸

The Initial Order of the TPSC granting On-Site a CCN set a rate for On-Site's residential sewer service in Maury County of \$8.49 per month. This has remained the rate for On-Site's residential service for each area it has subsequently added to its service territory.

On June 3, 1999, On-Site filed a Petition with the Authority for a change in rate structure, an increase in rates, and an addition of certain fees. The Petition states that under its present rates On-Site's revenues are not sufficient to meet the needs of the public for the provision of adequate sewer service, maintain corporate operations and a viable corporate existence, and earn a fair rate of return.

On-Site states that its proposed changes are necessary because On-Site's original tariff failed to include calculations for other costs necessarily incurred in the provision of adequate sewer service. These include treatment costs, utility costs, disposal system costs, sampling, testing and reporting costs, billing and collection costs, governmental fees, management fees, and corporate, property and federal taxes. Along with its Petition, On-Site also filed Revised Tariff documents which include Revised Rules and Regulations.

On-Site proposes to increase its rate for sewer system operation and maintenance from its current single rate for residential service of \$8.49 per month to a rate of \$8.95 per month. Because this rate covers only core costs such as the operation and maintenance of its collection system, it will now represent only one cost category on the basis of which On-Site will charge its residential customers. On-Site proposes to make further additions to its

⁶ Authority Docket No. 98-00790.

⁷ Authority Docket No. 98-00881.

⁸ Authority Docket No. 98-00880.

list of cost categories. These additions will result in substantial rate increases for On-Site's residential customers, but this is necessary for On-Site to provide adequate sewer service to its customers and earn a fair rate of return. These increases will vary from area to area.⁹ The proposed overall rates for On-Site's residential customers, by subdivision, are as follows:

Oakwood Subdivision	\$36.67
Southridge Subdivision	\$19.38 plus pass-through ¹⁰
Swan Harbour	\$35.11
River Road Utility District	\$31.15
Milcrofton Utility District	\$37.21
Tall Oaks Subdivision	\$35.11
Yoakum Hollow Subdivision	\$35.11
Shreiber Subdivision	\$35.11
Cornerstone of Mitchell Creek ¹¹	\$35.11

On-Site does not propose any commercial rate for Oakwood Subdivision, Tall Oaks Subdivision, or Yoakum Hollow Development, stating that it does not anticipate having any commercial customers at these locations. For Southridge Subdivision, On-Site proposes a commercial rate of \$25.00 per month plus a pass-through of actual treatment and disposal costs charged by the City of Clarksville. For the remaining areas, On-Site states that its commercial rates will be based on waste strength, system components, and gallons of flow, which On-Site states were unknown at the time it filed its Petition. In its revised projections for 1999 and 2000 income and operating income and expense, On-Site indicates that it anticipates no income from commercial customers through 2000.

⁹ On October 14, 1999, On-Site replaced Exhibit 11 to its Petition, showing a breakdown by cost category of On-Site's rates for each subdivision, with a new Exhibit 11. On-Site stated that this substitution was necessary to reflect the payment of public utility ad valorem taxes instead of property taxes. This correction resulted from consultations with the Consumer Advocate Division of the Office of the Attorney General.

¹⁰ Customers in this subdivision pay a fee for On-Site's services plus a pass-through amount for the actual cost of treatment and disposal service provided by the City of Clarksville.

¹¹ Cornerstone of Mitchell Creek is not listed in the Petition. It is listed in the Exhibits filed with the Petition and in replacement Exhibit 11, filed on October 14, 1999.

On-Site also proposes to add the following fees as stated in its Rules and Regulations:

Non-payment	5% of monthly charge
Disconnection	\$10
Reconnection	\$15
Returned check	\$20
Access	\$84/year

Although no persons sought intervention in this docket, a representative of On-Site met several times with representatives of the Consumer Advocate Division of the Office of the Attorney General to discuss On-Site's proposed rate changes, and On-Site made certain corrections in its filings as a result of these meetings.

On-Site's Hearing

The Authority issued a Notice of Hearing on November 9, 1999. The Hearing in this docket was held on November 30, 1999. On-Site filed the pre-filed testimony of Mr. Charles L. Pickney, On-Site's president. Mr. Pickney also testified during the Hearing and was questioned by the Directors and by Authority Staff. At the Hearing, Mr. Pickney testified that the changes proposed in On-Site's Petition, particularly the charges for additional categories of costs, are necessary for On-Site to be a viable company and provide sewer service to its customers. Mr. Pickney also testified that On-Site needs to be able to collect a number of fees which are standard in the industry, such as late payment, disconnection, reconnection, and returned check fees. Mr. Pickney stated further that a sewer access fee is necessary to cover costs of initial testing and reporting. Mr. Pickney stated that On-Site's proposed rates were the result of consultations with the Authority Staff and the Consumer Advocate Division, and that the proposed rates were comparable to those charged in other Middle Tennessee locations for similar services.

Findings

The Authority reviews any increase in rates or rate schedules by a public utility based on the standards of Tenn. Code Ann. § 65-5-203, which requires the Authority to determine whether the proposed increase is just and reasonable, taking into account the safety, adequacy and efficiency or lack thereof of the service or services furnished by the utility.

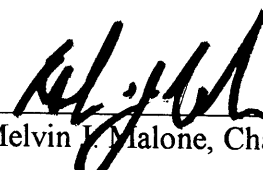
Based upon careful consideration of the Petition and the Exhibits thereto, as amended, and of the entire record of this matter, and applying the standards set forth in Tenn. Code Ann. § 65-5-203, the Authority finds and concludes that the rate increase On-Site proposes is just and reasonable and therefore that On-Site's Petition should be approved. On-Site has demonstrated that the rates it proposes to put into effect for sewer service are necessary to provide adequate sewer service to its customers and to provide On-Site a fair rate of return. On-Site has also demonstrated that the proposed Rules and Regulations attached to its Revised Tariff are necessary and should be approved.

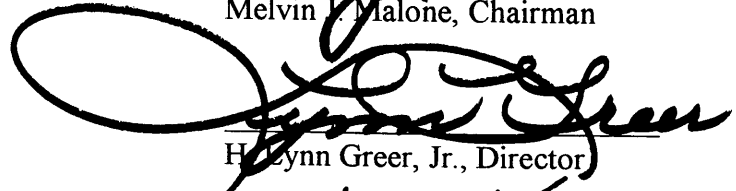
The Authority finds that it is necessary for On-Site to add the proposed costs to the list of cost categories on the basis of which it charges its customers. Although this addition represents a substantial increase in rates, this increase is necessary because On-Site's original tariff did not cover several types of common expenses. The Authority also finds that On-Site's proposed access fee is appropriate, as it will allow On-Site to cover monthly testing costs, and that the fees On-Site proposes to add for non-payment, disconnection, reconnection, and returned checks are reasonable and are comparable to fees charged by similar utility companies.

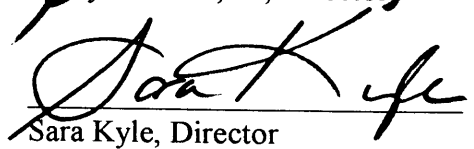
This matter came before the Authority for a decision at the regularly scheduled Authority Conference held on January 11, 2000. At that Conference, the Directors unanimously approved On-Site's Petition as amended.

IT IS THEREFORE ORDERED THAT:


1. The Petition of On-Site Systems, Inc. to Change Rate Structure, Increase Rates, and Add Fees is approved;
2. The proposed residential and commercial rates and other fees included in On-Site's Revised Tariff, as amended, are approved;
3. The proposed Rules and Regulations attached to On-Site's Revised Tariff are approved;
4. Any party aggrieved with the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within fifteen (15) days from the date of this Order; and
5. Any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from the date of this Order.


Melvin E. Malone, Chairman


H. Lynn Greer, Jr., Director


Sara Kyle, Director

ATTEST:


K. David Waddell, Executive Secretary